

STATEMENT OF THE HONORABLE CHARLES C. FINUCANE, ASSISTANT  
SECRETARY OF DEFENSE (MANPOWER, PERSONNEL AND RESERVE),  
BEFORE THE HOUSE POST OFFICE AND CIVIL SERVICE COMMITTEE  
ON FEDERAL PAY LEGISLATION, THURSDAY, APRIL 21, 1960.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I appreciate this opportunity to discuss with you the matter of Federal pay legislation as it relates to employees compensated under the Classification Act of 1949, as amended.

This is a matter of great importance to the Department of Defense which employs better than fifty percent of the total number of employees in the Executive Branch whose pay is fixed under this Act.

These employees, who constitute almost one-half of the Department's total civilian employment, include not only supervisors and skilled technicians, but also the key executives and many of the top engineers and scientists upon whom the Department must depend for the effective execution of its vital programs. Adequate and equitable compensation for these employees is quite naturally a matter of primary concern to us.

This subject is also important to the Department of Defense from the standpoint of costs. I understand that the annual costs of the bills before this Committee to increase salary rates under the Classification Act have been estimated at \$936 million. Roughly one-half this cost, or somewhere in the neighborhood of \$470 million dollars, would have to be borne by the Department of Defense.

This constitutes a sizeable amount of money to be financed out of the Defense budget. To support increased costs of this magnitude it would be necessary for the Department to assure itself that the proposed salary increases are necessary, that they are equitable, and that they can be defended in comparison with other defense requirements competing for the dollars involved.

The Department of Defense would not hesitate to support appropriate salary increases for these employees which it considered meet these tests. It does not, however, believe that the bills currently before this Committee meet these tests, nor can it substantiate at this time the need for any general salary increase for employees at all levels under the Classification Act.

One of the factors properly to be considered as an indication of the necessity for any over-all increase in Classification Act pay schedules is the effect of existing schedules upon ability to recruit and retain competent employees. Examination of turnover rates in Defense indicates that, while the Department has some difficulty with recruitment and retention of qualified civilian personnel for specialized categories of positions, these difficulties are not of a general nature and would not be resolved in the most efficient way by a general increase in Classification Act pay schedules.

The over-all situation on attraction and retention of personnel has remained relatively stable since the last general Classification Act pay increase enacted in July 1958. Separation and accession rates have not shown any general increase over-all and they have been consistently less than half the rates for all manufacturing industry in the United States. This pattern of general stability includes positions that are considered critical shortage categories, such as scientists, engineers, mathematicians and medical personnel.

This can be briefly illustrated by comparing turnover in these critical positions in the Department of the Navy for the six month period August 1958 to January 1959, a period which immediately followed the last Classification Act pay increase, with the latest comparable period of August 1959 to January

1960. This comparison shows that the accession rate for these critical series for the last half of 1958 was 5.5% and for 1959 it was 5.4%; the separation rates, respectively, were 10.1% and 11%.

I do not wish to imply from these over-all statistics that there are no problems of recruitment and retention of qualified employees, especially scientists and engineers, in the Department of Defense. Rather, the point to be made is that the problems of recruitment and retention are not across-the-board in nature, nor of the type that are particularly susceptible to solution by an across-the-board pay increase for all employees. They are in large measure problems which stem from current inadequacies and inequities in the Classification Act compensation system itself.

The Director of the Bureau of the Budget has presented these deficiencies very clearly, and has pointed out the difficulties of maintaining equitable salary rates under the existing machinery for adjusting the salary scale. The Department of Defense strongly supports the views expressed by Mr. Stans, and has urged for the past several years that appropriate steps be taken for a thorough overhaul of the present Classification Act compensation system.

Deficiencies in that system have been brought out clearly in the several studies to which Mr. Stans referred. They were highlighted in the report of the Cordiner Committee, established by the Secretary of Defense in 1956 to advise him concerning adjustments that might be needed in present provisions for compensation in order to attract and retain the competent personnel required by our defense activities. In 1958 the Congress substantially accomplished the interim salary adjustment recommended by the Cordiner Committee but most of the flaws in the compensation system pointed out by that Committee remain uncorrected.

It is in this area that action is urgently needed. The Department of Defense has found that those measures which the Congress has enacted to provide a greater measure of flexibility in fixing and adjusting pay under the Classification Act have been most beneficial.

One outstanding example is the authority given to the Civil Service Commission to establish a rate higher than the minimum rate of a grade for inhiring purposes, in order to assist in recruiting. This has proven invaluable in meeting recruiting requirements for scarce categories of personnel. Another example is the removal of the restriction which required that all college graduates without experience be hired at GS-5. This liberalization has also aided the Defense Department in recruiting exceptional young college graduates with potential for development in its many occupational fields.

Many of the problems which confront us today in the administration of the civilian salary structure parallel those which the Career Compensation Act of 1958 sought to correct for military personnel. These included lack of adequate career incentives, failure to sufficiently reward outstanding performance and advanced skills, and lack of flexibility in adapting the pay system to changing conditions.

It is pertinent to note that after long study in the Executive and Legislative branches it was determined that these problems could not be resolved through a general across-the-board pay increase for military personnel. Rather, a bill was enacted which was tailored to meet specific needs, to bolster reenlistment rates in the more advanced skills, to create incentives for capable personnel to stay in the service, and to reward superior achievement and performance.

Similarly, a solution tailored to meet the specific needs of the Federal civilian employee career system should also be developed. The Department of Defense urges that this Committee take steps to provide this solution. It is our sincere belief that a general pay raise at this time would not afford the required relief to our civilian pay problems, and would delay the improvements which are so urgent.

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